

Working for Alabama: A mid-term report to the citizens from Treasurer Young Boozer



On January 17, 2011, I pledged to uphold the Constitution of Alabama and serve her citizens with integrity and accountability as State Treasurer. Two years later, we have done just that. Because

the people of this state put their trust in me, I believe it's my responsibility to tell them what we've been doing in Treasury during the past two years, and what we're working to accomplish going forward.

Prepaid Affordable College Tuition Program (PACT)

No doubt the most critical issue facing this office when I was elected was the fiscal viability of PACT. The Alabama Legislature in 2010 passed a bill that lawmakers then believed would provide the PACT Program with enough money to meet future obligations. However, the \$548 million in taxpayer funds promised to the program was insufficient due to rising tuition, meaning PACT was still in trouble. As we continued to address the class action lawsuit filed prior to my election, the Montgomery County Circuit Court ordered mediation between the PACT Board and PACT contract holders. A settlement was rapidly reached and approved by the Circuit Court. However, the Alabama Supreme Court denied the settlement on appeal due to what it believed was a conflict in the 2010 law. We worked diligently and quickly to address the issues the Court identified in its

March 2012 ruling. Our efforts resulted in legislation we believed would solve the problem the Court cited in its denial of the settlement. At the instruction of the State Supreme Court, the Montgomery County Circuit Court reviewed the legislation and declared it to be constitutional as it applies to the settlement. We are now awaiting a final decision from the State Supreme Court. If approved, the settlement would pay all future tuition and mandatory fee payments at the fall 2010 rates of Alabama public institutions, with contract holders responsible for paying the difference. Given the fiscal condition of the PACT Program and its future obligations, we remain confident that the settlement is in the best interests of all program participants.

Right-sizing Treasury Staff

When I took office in January 2011, there were 46 positions in the State Treasury. Due largely to attrition, we now have 30 Treasury employees. While managing a 35% reduction in staff, Treasury performance has not been negatively impacted. In fact, our staff is not only meeting, but exceeding established performance levels.

Alabama Higher Education Loan Corporation (AHELC)

AHELC was established to provide student loans to Alabamians. By virtue of my position as State Treasurer, I was a member of its governing board. After a long period of inactivity, AHELC was revived, only to see its business model destroyed by the U.S. Congress and market forces. As a board member, I supported the effort to cease operations, dissolve the nonprofit corporation, and grant the existing surplus of \$3.3 million to help fund Alabama's CollegeCounts Scholarship Program. This decision was made in accordance with AHELC's founding purpose of funding higher education student aid.

CollegeCounts 529 Program

As State Treasurer, I am chair of Alabama's CollegeCounts 529 Board. The national College Savings Plan Network defines a 529 plan as "a tax-advantaged investment plan designed to encourage saving for the future higher education expenses of a designated beneficiary (typically one's child or grandchild). The plans are named after Section 529 of the Internal Revenue Code and are administered by state agencies and organizations."

Alabama's 529 plan, marketed as CollegeCounts, has experienced notable growth in the past two years. The total number of accounts, which includes those in Alabama and across the nation, has risen from 54,386 to 63,426, representing an increase of more than 16%. Total assets have grown from \$734 million to \$929 million, an increase of more than 26%. But perhaps more impressive is the growth witnessed among Alabama accounts alone. That category has seen an almost 75% increase, from 13,730 to 23,979. Alabama account assets have increased by almost 116%, from \$133.5 million to \$288.2 million.

CollegeCounts Scholarship

In November of 2012, the CollegeCounts Board announced the launch of the CollegeCounts Scholarship. Funds for the scholarship come from administrative fees from the assets held in the advisor-sold program, and from contributed AHELC funds, as described earlier in this report. The CollegeCounts Scholarship will help qualified Alabamians who may find it difficult to get other types of scholarship assistance. There are thousands of bright young minds

in our state who work hard and deserve help achieving their dream of a college degree. The scholarship will provide one-time awards of \$4,000 to qualified recipients enrolling in four-year schools and \$2,000 to those enrolling in two-year schools. Information, including an online application, is available at www.collegecountsalabama.com. The first CollegeCounts Scholarship recipients will be named this spring.

Unclaimed Property (UCP)

Most citizens who interact directly with our office do so through our Unclaimed Property Program, also known as MoneyQuest Alabama. Each year, millions of dollars in assets are turned over to the Alabama Treasurer's Office by financial institutions and businesses that lose contact with the owners. These assets may be in the form of cash, stocks, bonds, insurance benefits and even items from safe deposit boxes. The Alabama State Treasury serves as custodian of these assets and makes every effort to return them to the rightful owner or the heirs.

In an effort to increase the return of assets and raise awareness of the Unclaimed Property Program, we held phone banks with Alabama television stations. In 2011, we partnered with WHNT News Channel 19 in Huntsville, and in 2012 with WTVY News 4 in Dothan. These efforts resulted in more than 800 claims by rightful asset owners totaling more than \$300,000. We are planning to partner with TV stations in other parts of the state to conduct more phone banks in the future to further raise the profile of the Unclaimed Property Program.

Bayou La Batre Navigation Project Escrow Funds Returned

The Alabama State Port Authority, the City of Bayou La Batre and Mobile County each contributed money to help pay for a 1990 project to improve marine navigation by deepening a local channel. It was called the Bayou La Batre Navigation Project.

However, not all contributed funds were used for the project, leaving a surplus in the escrow account. In the 20 years since the project's completion in 1992, not a single invoice had been submitted and no notification of its completion was provided by the Army Corps of Engineers, meaning the funds went unused and unreturned. Our office contacted the Corps, requested confirmation of the project's completion, received it, and then followed the appropriate procedures to return the funds. They were returned to each entity as follows:

- State Port Authority: \$818,079
- City of Bayou La Batre: \$794,676
- Mobile County: \$794,676

Penny Trust Fund

The Penny Trust Fund is a permanent trust fund approved by the voters of Alabama to provide for public health initiatives and public school programs. Prior to my election, the board presiding over the fund had never met in its 20 years of existence. Our team reviewed the law governing the Penny Trust Fund, and, after learning its history, we held the first-ever Penny Trust Fund Board meeting in June 2011. Board members voted to modify the fund's investment strategy, giving the Treasurer the options needed to achieve significantly better returns.

In August 2012, the Penny Trust Fund Board met to approve distributions of \$5,519 to the Department of Education and \$5,519 to the Department of Public Health.

We expect to distribute approximately \$200,000 in fiscal year 2013.

Ex Officio Duties

There are several boards on which I serve by virtue of my position as Treasurer, meaning I am an ex officio member. Some of those positions include:

- State Board of Adjustment, 2012 Board Chair
- Alabama Housing Finance Authority
- Community Service Grants Executive Commission
- Industrial Access Road and Bridge Corporation Board
- Teacher Retirement System/Employees Retirement System Boards
- 457 Advisory Board

Representing Alabama to National Organizations

As a member of the National Association of State Treasurers (NAST), I have the opportunity to work with my colleagues across the country. I am currently a member of the NAST Banking Committee. My involvement in this organization gives me greater insight into the best practices of other state treasuries and allows information sharing among the states to improve the efforts we all make for the citizens we serve.

I am also a member of the College Savings Plans Network's (CSPN) Executive Board. CSPN is an affiliate of the National Association of State Treasurers that works to promote and enhance 529 Plans. It also serves as an information clearinghouse for state-administered college savings programs, like Alabama's CollegeCounts 529 Program and PACT. The CSPN Executive Board is comprised of state officials elected by their peers to serve as the leadership team for CSPN.

Cash Management Investment Meetings

In an effort to improve investment performance for state agencies whose money is invested by our office, we began meeting with representatives from each of these agencies to determine their needs and how best to meet them. This type of collaboration is a first for Treasury. We are excited about cultivating relationships between our office and the agencies we serve, allowing us to make better investment choices and increase their earnings. We manage about \$350 million for about 20 organizations.

Legislative Efforts

Cash Management

The State of Alabama now has more investment options for its money, thanks to the 2012 passage of Senate Bill 282, which expands the types of investments in which the State Treasurer can invest state funds. The options fit with our philosophy of safety, liquidity and yield. Listed in priority order, those qualities enable us to best manage the taxpayer funds entrusted to our office.

This action makes long-needed changes in state investment guidelines, giving our office the flexibility required to further improve investment strategies. Prior to the passage of this legislation, Alabama had the most restrictive investment guidelines in the nation. Now we have the ability to expand pursuit of safe, liquid investment options for taxpayer money. The new guidelines:

- allow deposit of state monies in all interest-bearing bank products. Deposits are fully collateralized, meaning there is no risk of loss involved with the expansion of

state funds into other bank products.

- eliminate a 20% restriction for investment in U.S. Treasury and agency securities and funds containing such obligations.
- provide an additional short-term vehicle for investment of excess monies through commercial paper and bankers' acceptances.

Alabama Trust Fund (ATF)

The constitutional amendment voters approved in September 2012 to transfer money from the Alabama Trust Fund to the General Fund does more than just help the state's current budget concerns. It also provides a great opportunity to manage ATF investments for total return and provide a spending policy to ensure stable and predictable cash flow for the General Fund and other recipients.

The amendment accomplishes the following:

- Simplifies the structure for ATF annual disbursements
- Provides a stable source of revenue to recipients
- Provides long-term, prudent management of ATF assets for higher total returns

I am pleased to report that at the beginning of the 2013 legislative session, legislators moved swiftly to pass a bill to repay the funds that are transferred from the ATF to the State's General Fund. This bill was the first piece of legislation to be signed into law by the Governor in this session.

Improving the Community Service Grants process

Legislative Community Service Grants were created to give state funds to entities that promote education, social services, agriculture and the public good, in general. By virtue of my position as State Treasurer, I am a member of the Executive Commission that oversees the review and approval of submitted grant requests. Our office spearheaded efforts to revamp the grant review submission and process. Improvements include:

- making applications compliant with Alabama's new immigration law.
- requiring non-state entities to submit a Form 990 with their applications to ensure fiscal responsibility.
- changing the application intake process to ensure Executive Commission members can focus entirely on approving requests during meetings, versus other administrative tasks.

Working for You

We are accomplishing great things in the Treasurer's Office. We thank you for the opportunity to serve the people of Alabama.

Respectfully submitted,

Young Boozer
State Treasurer